

MONTHLY REVENUE REPORT

September 2008

The revenue collected from Michigan's General Fund and School Aid Fund earmarked taxes totaled \$2.27 billion in September, which was up 11.9% from last year's level. This very strong rate of growth reflects the impact of some noneconomic factors that boosted this year's collections. These noneconomic factors and the taxes they affected include: 1) The increase in the income tax rate from 3.9% to 4.35%, which went into effect October 1, 2007, together with an extra key payday in September helped boost income tax revenue, 2) August ended on a weekend, which pushed some sales and use tax collections into September, and 3) the Michigan business tax has a different monthly collections pattern than the single business tax and this also helped boost tax collections in September compared with last year. Adjusting for these noneconomic factors reveals that tax collections were essentially unchanged in September compared with last year's level.

Actual collections did, however, exceed the level of collections expected to be collected in September by about \$30.0 million.

While Michigan's fiscal year ended on September 30, tax collections for FY 2007-08 are not yet complete. Taxes collected in October and November that became a liability before October 1 will be accrued back to FY 2007-08. These accruals will be particularly significant for the State education and Michigan business taxes. Through the end of September, FY 2007-08 tax collections were up 8.1% and were exceeding the consensus revenue estimate by about \$130.0 million. About \$70.0 million of this increase was in General Fund earmarked revenue and \$60.0 million in School Aid Fund revenue.

Income tax revenue totaled \$793.4 million in September, which was up 12.9% from the year-ago level. This strong increase was due to the increase in the income tax rate and an additional key payday this year compared with last year. Adjusting for these factors reveals that income tax revenue declined in September by an estimated 3.5%. On a fiscal year-to-date basis, income tax revenue is up 13.3%.

Sales tax revenue totaled \$633.8 million in September, representing a 25.3% increase from last year's level.

This very strong rate of growth is due primarily to shifts in monthly collections that occur when a month ends on a weekend. Adjusting for this noneconomic shift in monthly sales tax revenue, September sales tax collections still topped the year-ago level by 8.4%. While this large increase in sales tax collections cannot be explained by recent economic activity, it most likely reflects an aberration in the timing of monthly collections, which would suggest that October collections will be lower than expected. So far in FY 2007-08, sales tax collections are up 4.0%.

Michigan business tax revenue totaled \$179.9 million in September, which brings the FY 2007-08 collections to date up to \$1.4 billion. Revenue from the repealed single business tax continues to decline, as expected.

In September it totaled only \$11.3 million, which was down 89.6% from last year. Through September, it appears that Michigan business tax revenue was tracking well with the consensus estimate for FY 2007-08, and may even have been up slightly, but single business tax revenue was coming in lower than expected.

Among the other major taxes, September tax collections fell below the year-ago level for the tobacco tax (down 10.1%), real estate transfer tax (down 29.1%), State education tax (down 15.0%), and casino tax (down 15.0%). Severance tax revenue increased 89.1%.

The table on the back of this report identifies the major taxes included in this report, and provides their respective revenue levels and growth rates for September 2008. Also presented are the consensus revenue estimates for FY 2007-08, which were adopted at the May 16, 2008, Consensus Revenue Estimating Conference.



Jay Wortley, Senior Economist

**MICHIGAN REVENUE UPDATE
SEPTEMBER 2008
(dollars in millions)**

Type of Revenue	September Collections		FY 2007-08 to Date ²⁾		FY 2007-08 Estimate ³⁾	
	Total ¹⁾	% Change From Year Ago	Total ¹⁾	% Change From Year Ago	Total ¹⁾	% Change From FY 2006-07
Gross Income Tax	\$816.9	12.5%	\$8,381.0	11.2%	\$8,999.4	10.7%
Refunds	(23.5)	1.7	(1,732.3)	4.0	(1,825.5)	8.2
Net Income Tax	\$793.4	12.9%	\$6,648.7	13.3%	7,173.9	11.4%
Sales Tax	633.8	25.3	6,198.5	4.0	6,648.8	1.5
Motor Vehicles	78.1	32.4	678.8	2.0	----	----
All Other Sales Tax	555.7	24.3	5,519.7	4.2	----	----
Use Tax	128.7	31.7	1,255.9	1.1	1,338.0	(3.1)
Tobacco Taxes	95.7	(10.1)	984.2	(5.2)	1,081.0	(4.3)
Single Business Tax	11.3	(89.6)	706.2	(54.8)	560.6	(69.1)
Michigan Business Tax	179.9	----	1,413.4	----	1,816.3	----
Insurance Tax	0.1	(80.0)	192.1	3.7	244.0	9.0
State Education Property Tax	362.2	(15.0)	1,066.7	(1.9)	2,028.3	(2.5)
Real Estate Transfer Tax	15.1	(29.1)	161.4	(26.0)	189.0	(20.4)
Casino Wagering Tax ⁴⁾	9.1	(15.0)	130.7	(18.0)	140.1	(12.1)
Oil & Gas Severance Tax	10.4	89.1	95.0	54.7	86.0	19.4
Other Taxes ⁵⁾	28.5	(31.5)	364.3	(6.2)	377.5	(19.7)
Total	\$2,268.2	11.9%	\$19,217.1	8.1%	\$21,683.5	5.4%
Addendum:						
Gross Lottery Sales ⁴⁾	\$177.4	5.4%	\$2,330.3	(0.5)%	\$2,212.0	(0.5)%
Net to School Aid Fund ⁴⁾	\$ 54.8	10.2%	\$ 741.2	(0.6)%	\$ 749.2	0.0%

1) Total collections are unadjusted cash collections unless otherwise noted.

2) FY 2007-08 year-to-date collections begin with November 2007 collections to reflect accrual accounting.

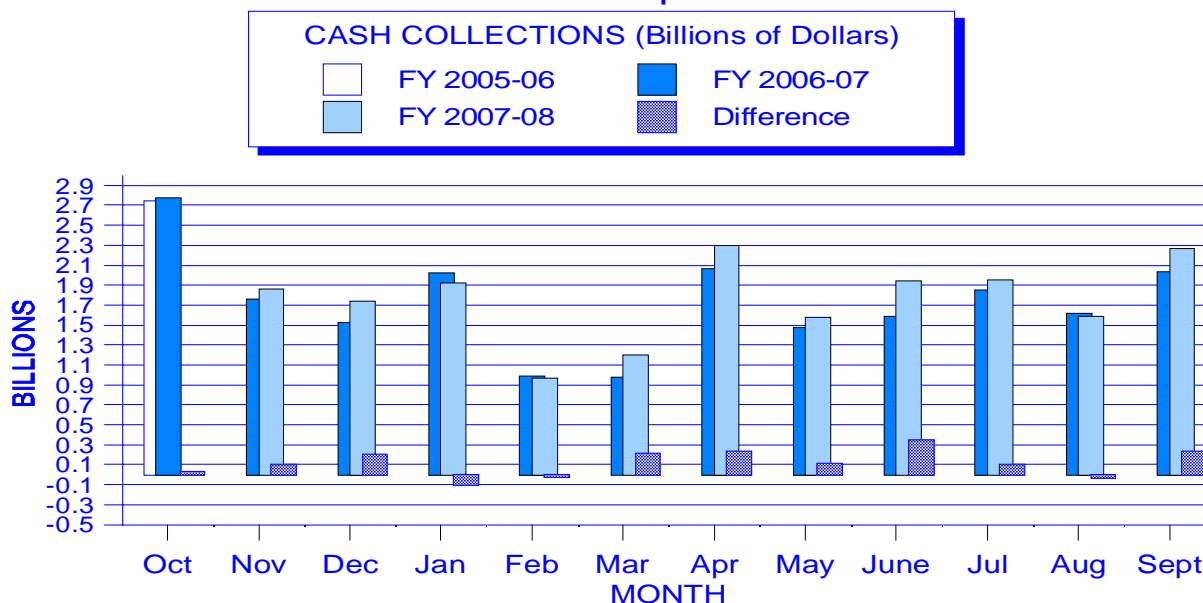
3) Consensus revenue estimates adopted at the May 16, 2008, Consensus Revenue Estimating Conference.

4) Lottery and casino revenue is not accrued, so FY 2007-08 collections will include October 2007 to September 2008.

5) Other Taxes include beer, wine, liquor, industrial facilities, utility property, and estate taxes, and penalties and interest.

Actual Revenue Collections for Major State Taxes*

October 2006 to September 2008



*Comparison of actual collections. Major taxes include the beer, casino wagering, estate, income, industrial facilities, insurance retaliatory, liquor, MBT, oil & gas severance, real estate transfer, sales, SBT, State education property, tobacco (cigarette & other tobacco products), use, utility property, and wine taxes, and penalties and interest revenue.